

NORTH SEA DECOMMISSIONING INITIATIVE

UK OIL & GAS FIELD DECOMMISSIONING

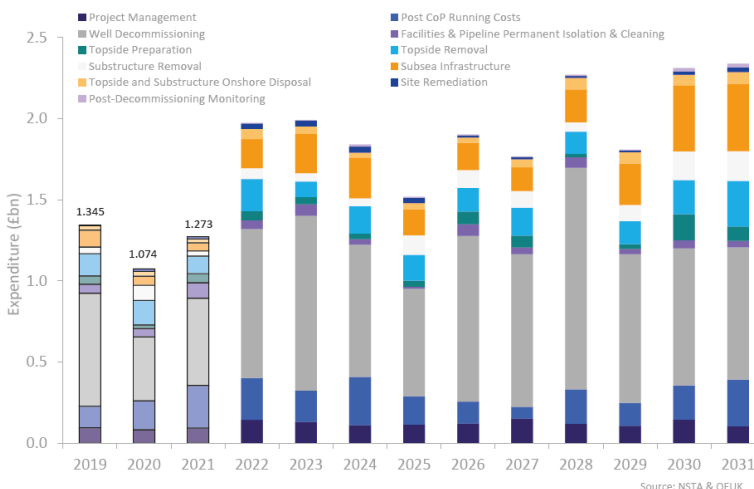
The ever-changing headwinds currently faced by the oil and gas sector are existential for many corporations. Unfortunate tax regulations combined with a global focus on energy security has created a unique profit margin dilemma for many North Sea lessees, both large and small. CAC Specialty understands the business environment faced by our clients and recognize that our work in the surety business supporting decommissioning obligations for US oil and gas companies has significant application in other oil and gas producing regions such as the United Kingdom. These surety products have an immediate impact on improving capital structures, freeing up much needed credit lines (which are otherwise being hampered by LOC's currently supporting decommissioning obligations) and improves the attractiveness of the company to new and existing investors. CAC Specialty's surety team's approach, wordings, structures and surety counterparties are tried, tested, and support a surety program which is a fully approved instrument by UK regulators. Our team have the relationships with the key surety markets (largely driven by US underwriters) to deliver results that previously have not been available to UK operators and non-operators.

THE NORTH SEA DECOMMISSIONING ENVIRONMENT

The decommissioning opportunity is snowballing and could be worth around £20bn to the supply chain between now and 2031. That being said, decommissioning expenditures have experienced a 25% cost reduction compared to 2017 estimates which is driven by improvements in planning and execution practices. This has led to reductions in the estimated cost of platform and subsea infrastructure removals in the Northern North Sea (NNS) and Central North Sea (CNS). We also understand that the windfall tax laws recently implemented in the UK will have an adverse effect on a company's DSA financial assurance requirements. We stress these metrics to underscore the necessity for a cohesive approach to one's financial assurance requirements along with the actual labor and planning. Under standard DSA requirements, lessees who are not investment grade are required to post some form of financial assurance to guarantee their payment for decommissioning.

SURETY & THE DECOMMISSIONING SECURITY AGREEMENT (DSA)

The NSTA along with the Business Energy & Industrial Strategy regulate the decommissioning of offshore oil & gas installations and pipelines. Operators under a field's JOA are required to institute a DSA toward the end of a field's economic life. A key objective of a DSA is to ensure that each field owner provides adequate security in proportion to its share of the overall decommissioning liability. This protects the other lessees from any credit concerns and the ability of their co-lessees to pay their portion of the decommissioning bill.



FINANCIAL ASSURANCE OPTIONS

Under the DSA, a lessee can secure the status of "Qualifying Surety". This status means the lessee has a minimum S&P rating of BBB or a Moody's rating of Baa2. When this is the case, the lessee may provide a parent company guarantee as financial assurance for its share of decommissioning.

A lessee with a lower credit rating than the ones stated above must post financial assurance in either the form of a letter of credit, surety bond, or a trust fund. This financial assurance is to remain in place until all decommissioning is completed. The amount can fluctuate as estimates change and can be reduced as work is completed.

CAC SPECIALTY & US UNDERWRITERS

Surety underwriters in the US have been analyzing offshore decommissioning risk for the last half century. Their expertise crossed the Atlantic within the last six years when US energy companies with North Sea assets started to embark on their decommissioning projects and needed financial assurance. This initiative was led by the current members of CAC's surety team and several surety bonds underwritten by US personelle were implemented for UKCS lessees. This placement practice has now become a recognized instrument and can be utilized by any North Sea lessee or operators, regardless of domicile.

Our contingent of US surety underwriters are more comfortable with assessing and underwriting these risks than other international surety markets given their tenured history. Once they approve of a risk, they are then able to inform their UK counterparts or fronting companies to issue the necessary bond based of their analysis. Additionally, the surety bond does not impede a lessee's credit facility and can be cheaper than some letters of credit.

SURETY BOND CANDIDATES

Any lessee or operator with an aging North Sea asset whose decommissioning is either underway or on the horizon can apply for surety credit. The underwriting process is straightforward. More akin to banking than insurance, surety underwriters will look at the financial, economic, and engineering date involved with the decommissioning. We have even begun to see seller require financial assurance for decommissioning on assets with many years of production life remaining. No level of risk is too small or too large for this product. We typically see candidates fall into one of the below categories:

Multi-National Operator with Legacy Assets

Typically, this company has an international portfolio of assets, some of which are in the North Sea. Some of the North Sea assets are either in or approaching decommissioning and need financial assurance.

North Sea

These operators and lessees tend to have all, or a majority of their producing assets located in the North Sea. Underwriting becomes more difficult due to the concentration of risk but credit is also given for regional expertise.

Private Equity or Venture Capital

These operators and lessees target late life assets, or a portfolio of assets with a portion being in or near decommissioning. The underwriting here is unique, but surety is still a plausible form of financial assurance.

INCREASING RISK →→→

WORKING WITH CAC SPECIALTY

The CAC Specialty North Sea surety practice is based in Houston, Texas, along with many of the underwriters who analyze these risks. We begin the process by consulting with the lessee about their current or expected surety needs. Then we begin to build a marketing strategy with our client, setting a strategy unique to the lessee and to the property(ies) in question. We suggest the lessee join us and perform an in person or virtual roadshow to support CAC Specialty's marketing process.



It is most important to note that **no costs are incurred** on the lessee's behalf until terms are reached with a surety and the bond is issued and in place. Please reach out to our team leaders below to explore how we can help support your operations.

ABOUT CAC SPECIALTY

CAC Specialty is a risk solutions company of seasoned and proactive senior industry leaders, operating as a nimble and collaborative partner who puts you and your business first. With a knowledge-driven approach informed by data and decades of honed instinct, CAC Specialty brings an innovative vision to insurance broking and structured solutions to solve your risk challenges – from the simple to the previously unsolvable.



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